



Alaska Railroad Corporation

Special Report to the State of Alaska Legislature and Administration



January 2004



Introduction

Alaska's railroad concluded 2003 by confirming a record year in almost every respect. Revenues were up, expenses were down, and outstanding employee performance and productivity contributed to the safest and most prosperous year the railroad has ever experienced. Furthermore, 2003 also saw the railroad keep employee pay, benefits, and retirement intact ... a claim that cannot be matched today even by many Fortune 500 companies. At the very least, 2003 corporate results are worthy of some solid "high-5s" among railroaders.

But the 2003 results are truly much more telling than that. They provide a look into the railroad's future, while reminding us not to repeat the past. Years of poor federal capital funding before transfer had left the 500-mile line sorely neglected. Judging from the derailment statistics at the time, the line had become unacceptably risky. That has all changed. Since 1996, more than \$390 million in federal grants have been converted into system-wide infrastructure improvements, of which \$136 million have gone directly into main rail line upgrades. Today neglect and risk are being eliminated, replaced through a robust investment of annual capital dollars that have clearly impacted the safety and efficiency of the Alaska Railroad in a dramatically positive way. Considering that we move over 400,000 passengers and 38,000 railcars of hazardous material through pristine National Park and downtown railbelt communities, any argument that rationalizes away our high operating and safety standards is at once specious and irresponsible.

Realizing full well, however, that millions in Congressional annual appropriations will not continue forever, and that the loss would cripple the railroad's journey to world-class safety, economic development, and operational excellence, our 5-year plan contains a strategy to develop a degree of permanent financial health that would offset the loss. This year's results demonstrated the viability of our effort. While we still have a ways to go, I believe we have shown the wherewithal to preserve financial independence, and remove the risk that a State subsidy intervention would ever befall the Alaska Railroad. Corporate results in 2003 were a ringing endorsement to the wisdom of the Railroad Transfer Act model. It works!

Respectfully,

Patrick K. Gamble, President & CEO



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Guiding Statements

Vision:

Building a Great Railroad across the Great Land

Mission:

Be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans.





Alaska Railroad “Quick Facts”

PURCHASE PRICE: (Jan. 5, 1985)

Paid to federal government	\$22.3 million
Start-up costs & contributed capital	<u>\$11.9 million</u>
Total Investment-State of Alaska	\$34.2 million

ORGANIZATION: (following State purchase)

- Independent corporation owned by State of Alaska
- Managed by a seven-member board of directors appointed by the Governor
- Mandated to be self-sustaining, responsible for all financial and legal obligations

FINANCIAL STATISTICS: (Preliminary, Unaudited)

(Jan. 1-Dec. 31, 2003)

Total Assets	\$437.3 million
Total 2003 revenues	\$109.5 million
Total 2003 expenses	<u>\$ 95.5 million</u>
2003 net income	\$ 14.0 million
Budgeted 2003 net income	\$ 5.5 million

OPERATING DATA:

Miles of main line	466
Miles of branch line	59
Miles of yards and sidings	86
Total miles of track	611
Freight cars (owned & leased)	1,625
Passenger cars	42
Locomotives (8 new on order for 2004)	52

OPERATING STATISTICS:

(Jan. 1-Dec. 31, 2003)

Passenger ridership	446,162
Freight tonnage	8,324,395
Revenue car loads	102,292

EMPLOYEES: December 31, 2003

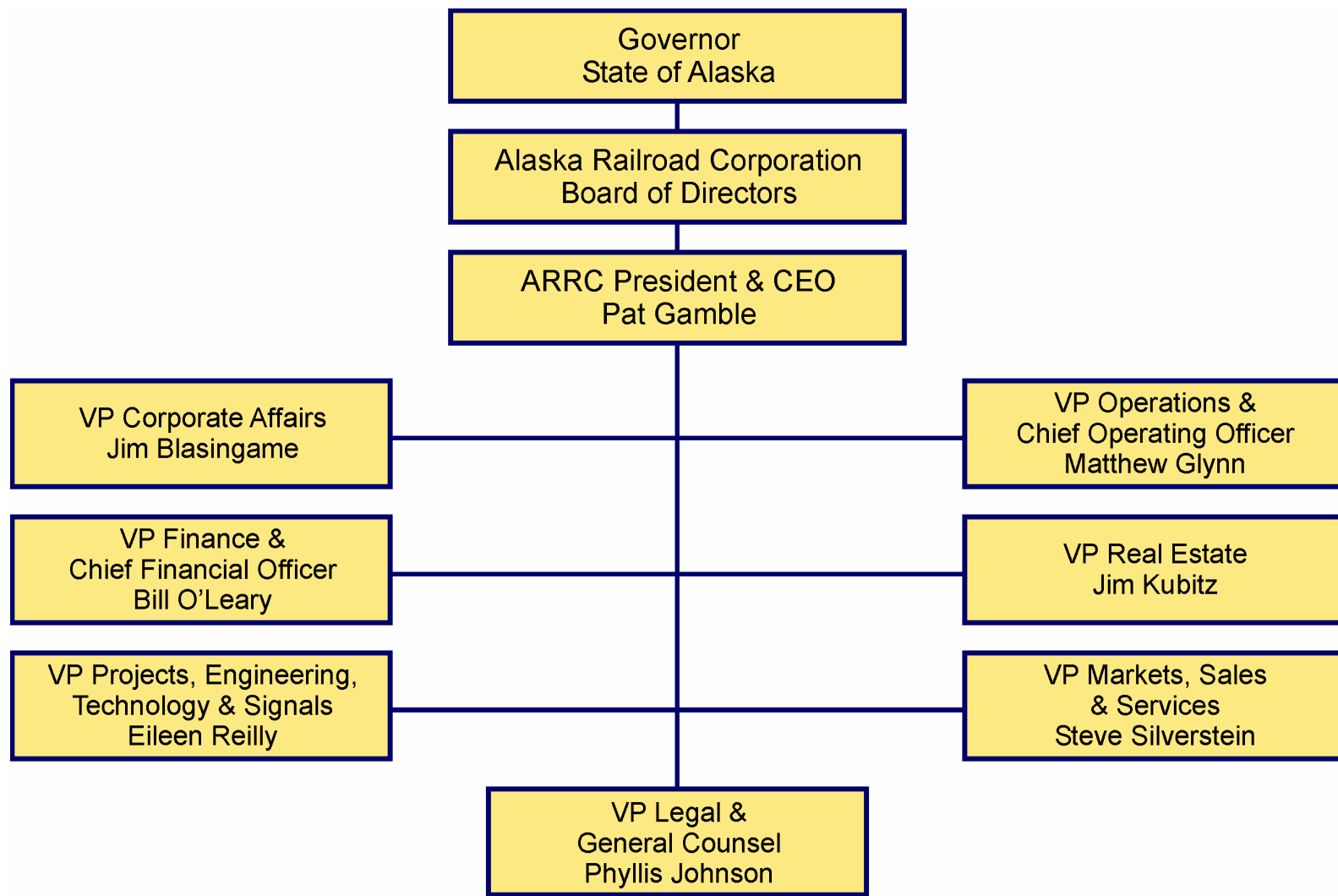
Number of year-round employees	722
Average years of service	10.8
Average age	43.2
Male	610
Female	112

UNIONS: A majority of ARRC employees are members of five unions, including:

United Transportation Union	147
Transportation Communication Union	44
International Association of Machinists	65
American Federation of Government Employees ...	285
American Train Dispatchers Department	10



Corporate Organization





Alaska Railroad Corporation “At A Glance”

Corporate History

The Alaska Railroad was built between 1914 and 1923 by the U.S. government. It was operated by the federal government until January 1985 when it was purchased by the State of Alaska to serve Alaska businesses and communities as an engine of community development and economic growth. The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) in 1984 as an independent entity to own and operate the Railroad and to manage Railroad property after transfer.

The legislature appropriated \$11.9 million to the new corporation for start-up costs because the U.S. government retained control of the Railroad's bank accounts at the time of transfer (January 5, 1985), which contained a similar amount of cash. The legislative appropriation was sufficient to cover two payrolls and the costs of several on-going capital projects. The U.S. government retained control of the cash because it also retained responsibility for all payables and other liabilities that had arisen during the period of federal ownership (including, for example, worker's compensation claims).

Board of Directors

The Alaska Railroad Corporation is an independent corporation owned by the State of Alaska. All the powers of the corporation are vested in a seven-member board of directors appointed by the Governor. The board consists of the Commissioner of Transportation & Public Facilities, Commissioner of Community & Economic Development, and five other members appointed by the Governor. One director must have at least 10 years of management experience on a U.S. railroad. Another director must be an employee-member of ARRC's labor unions. Two positions are designated for residents of the two judicial districts in which the Railroad operates. The President and CEO of the Alaska Railroad reports to the board of directors.

Business Facts

While wholly owned by the State of Alaska, the Alaska Railroad is an independent authority responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation – required to conduct its business without operating subsidies from the state. ARRC serves ports and communities from the Gulf of Alaska to Fairbanks. It is the only full-service railroad in the United States providing both year-round freight and passenger services. From tidewater at Whittier and Seward to the heart of Interior Alaska in Fairbanks, ARRC's route covers 466 miles (with 611 total miles of track including spurs, industrial and yard track).

ARRC's operations are supported through revenues generated by freight, passenger and real estate services. Maintenance and operations centers are located in Seward, Whittier, Anchorage, Healy and Fairbanks.

Employees

As of December 2003 ARRC employed 722 full-time employees with an additional 100 seasonal employees from May through September. The Alaska Railroad has an Alaska hire rate of over 90%. ARRC employee wages and benefits are paid for through earned corporate revenues (approximately \$61.9 million in 2003). Five different unions that negotiate contracts with the corporation represent 551 ARRC employees.

Finances

With total revenues of \$109.5 million and total expenses of \$95.5 million, the Alaska Railroad netted \$14.0 million in 2003 (unaudited). Transportation of petroleum products, gravel, coal, oilfield and mining supplies, chemicals and consumer goods account for 75% of ARRC's gross revenues. ARRC serves almost a half million passengers each year, accounting for approximately 14% of gross revenues.

ARRC owns approximately 36,000 acres of land. Of that, 14,000 acres are right-of-way and 4,500 acres are used in operations. The remaining land can be leased or permitted to help generate revenue for ARRC. Real estate revenues generally account for about 10% of the corporation's gross revenues.

The Railroad invests all cash flow from its annual net earnings and depreciation on capital improvements to its 611 miles of track, 169 bridges, 79 crossing signals, the roadbed, and other asset enhancements. Additionally, significant operating dollars are spent on maintenance of rail cars, locomotives, employee training, technology improvements, and safety and environmental enhancements.

How ARRC Differs from State Agencies

The Alaska Railroad Corporation Act of 1984 established an independent state-owned corporation that is governed by a seven-member board of directors appointed by the Governor. The ARRC President and CEO reports to the Board. Railroad employees are not state employees in that they receive pay, benefits, and retirement all from the ARRC.

Unlike other independent state corporations (such as the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority), ARRC's enabling statute specifically requires that all revenue earned by the Railroad be retained by the Railroad. The federal transfer legislation mandated this requirement. The intent was to ensure the Railroad had control of the funds it needed to meet basic maintenance needs, improve the asset for increased safety and profitability, and could avoid having to tap into the state general fund. The Railroad's annual net earnings are all invested back into the corporation. Although ARRC is not covered under the State's Executive Budget Act, the state government ensures oversight of ARRC's operation and management practices through the following:

- The ARRC Board of Directors is responsible for initiating both a financial and performance audit each year. As required by statute, the financial audit is performed by an independent certified public accountant. A recognized railroad management expert conducts the annual performance audit to ensure ARRC is managed and operated effectively and efficiently.
- ARRC must file an oversight report with the Legislature and Governor before it undertakes certain expansion, reduction, or diversification of services.
- Legislative approval is required for certain corporate actions, such as disposing of the Railroad's entire interest in land, or leasing land for longer than 55 years.
- The Legislative Budget and Audit Committee regularly reviews ARRC's operation and management practices.
- ARRC's procurement procedures are required to be substantially equivalent to state procurement requirements.
- ARRC employees and directors are subject to the Executive Branch Code of Ethics.
- The Alaska Department of Transportation & Public Facilities (ADOT/PF) Commissioner and Department of Community and Economic Development (DCED) Commissioner both serve on ARRC's board of directors.
- ARRC's spill prevention and response plans are filed and regulated by the State and ARRC is required by state law to show sufficient financial responsibility to respond to spills.



2003 Year in Review

Performance Sets a New Standard

By Patrick Gamble, President & CEO

Motivated employees, a good plan executed well, and a more modern operating infrastructure boosted Alaska Railroad performance in 2003 to the top of the charts.

2003 marked the all around safest year in Alaska Railroad history. Business thrived with increased passenger revenues, record delivery of fuel, high demand for gravel and the re-introduction of export coal. New technology was brought on-line, which is designed to help prevent train collisions and protect track maintenance forces. Net earning estimates will be more than twice that budgeted.

Total the results, and the Alaska Railroad clearly had one of its most successful years to date. Looking ahead, 2003's successes have positioned the company well to be able to accelerate deferred maintenance and badly needed capital investments, as well as partner in economic development projects, including rail extensions and the gas pipeline.

Here's how the Railroad stacked up when compared to both its 2003 goals and five-year objectives.

Safety

2003 goal: *Operate a safe railroad*

Five-year objective: *Reduce employee injuries to achieve an average of no more than 2.0 injuries per 200,000 man-hours*

2003 was the Alaska Railroad's safest, ever. Thanks to a committed workforce, we reached a number of important federal milestones. Perhaps the most important was a reduction in injury severity, expressed as the number of days lost to injury per 200,000 man-hours worked. We finished the year at 3.66, well below the 1997 rate of 11.45, well below the 2001 rate of 7.15, coming in at a 54% reduction in days lost over last year.

The Railroad also experienced a reduction in the number of "injuries" that must be reported to the federal government (for example, any prescription by a doctor makes an incident reportable). In 2003, there were 26 such incidents – the lowest number in our company history. These achievements were accomplished while Railroad employees worked the second largest number of man-hours in modern times (1.42 million).

Train derailments were also down in 2003. ARRC met its goal to reduce derailments by 20 percent. In addition, the Railroad's "train accident rate" was below the national average at 3.5. (Train accident rate is an industry measure of incidents with more than \$6,700 damage, for every million train miles run.)

Financial

2003 goal: *Grow overall revenue two to four percent per year*

2003 turned out to be an unpredictable year for business and revenues. All indications during the 2003 budget process pointed to a marginal, if not below average, year. However, a surprisingly strong Alaska economy and a number of unplanned business opportunities contributed to revenue growth of 7.5%. On the expense side, outstanding productivity and efficiency by Railroad employees dropped expenses well below estimates. As a result, the Alaska Railroad significantly surpassed its 2003 net income budget of \$5.5 million, earning \$14.0 million (unaudited).

The company's assets grew by 19 percent and are now valued at \$437.3 million.

Customers

2003 goal: *Place more emphasis on customer service and on "the business" of the Railroad*

Freight: Fuel transported for the Williams Refinery ended up well over budget estimates. The Railroad was in a position to haul the extra loads as a result of track upgrades and efficiencies from the new Williams offload loop track in Anchorage built in 2002. Southcentral construction projects drove a high demand for gravel, making 2003 the second highest year for gravel tonnage in company history. The export coal contract with South Korea resumed this year, adding two coal trains per week. Finally, the ADOT/PF's Bird Point road project along Turnagain Arm used rail to transport 22,000 cars of bulk rock, adding nicely to unbudgeted revenues.

Passenger: Alaska Railroad (independent traveler) passenger numbers grew by 9% over last year. Travel agency contribution was relatively flat. Passenger purchases generally reflected the 2002 trend, with the shorter, less expensive packages being the most popular. Rail trips to Seward booked at an all time high this year, growing by 17%. Also popular were day trips out of Anchorage, the new Spencer Glacier and Grandview service in particular. On the international front, there was a jump in rail travelers from Japan (no visa required, quicker to get through Customs screening). Longer excursions to Denali and Fairbanks dipped in numbers.

Overall, the Railroad's passenger business continues to grow steadily. Due to our aging car fleet, a decision was made in 2003 to retire four passenger cars and purchase two new passenger-dining coaches, with service scheduled in 2005. This year, customers were able to book rail packages over the Internet, enhancing customer service and contributing to the Railroad's more efficient reservation process.

Real Estate

Five-year objective: *Achieve and sustain an annual real estate income of at least \$10 million per year*

The Railroad's Real Estate Department has already met this long-term objective by earning \$10.5 million in 2003, exceeding the budget estimate of \$9.6 million. Contributions to the bottom line came from a variety of sources, including increased Seward and Whittier dock revenues as a result of recent capital upgrades and improvements.

With an eye toward development, the Railroad focused on Ship Creek in 2003 and secured the first retail tenant in the new development area – the Ulu Factory – which opened the doors to its new building this summer. Further development plans include partnering with the Municipality of Anchorage to try and link the ARRC's E-Street corridor proposal to the Railroad's future Ship Creek intermodal center, now under design.

Operations/Maintenance

Five-year objectives: *Achieve and sustain an operating ratio of 0.95 by 2006*
Consistently run trains between Anchorage and Fairbanks under 12 hours

The Railroad started 2003 with a goal to achieve a train-operating ratio of 1.0, an interim objective along a ramp down to .95 by 2006. Operating ratio measures the pure train operational costs over revenues (not including real estate activities or interest income and expense). A cost conscious, efficiency-driven workforce helped the Railroad significantly reduce expenses. Operations and maintenance personnel produced an operating ratio of 0.92, surpassing the Railroad's five-year objective early on.

A number of labor, operation and maintenance initiatives contributed to this remarkable performance. For starters, crew costs in the Anchorage-to-Fairbanks corridor decreased by 24% and overtime was reduced by 40%. The Railroad successfully implemented the use of "distributed power", a technology that allows multiple locomotives to work in concert to gain better fuel economy, improved power performance, achieve better braking ability, and reduce the risk of derailment by lessening in-train forces. During the 2002/2003-winter season, the Railroad also advanced its objective to run trains from Anchorage to Fairbanks in less than 12 hours, achieving a 75% success rate.

The policy decision to use continuously welded rail and concrete ties contributed increased average speeds and safer operating conditions, while also lowering maintenance costs. Sidings (train passing lanes) were added and/or lengthened to support future increased traffic and longer, heavier trains.

Employee Initiatives/Labor

2003 goal: *Improve employee quality of life*

Five-year objective: *Establish a formal Railroad recruitment and training program*

The Alaska Railroad spent \$1.8 million in 2003 to enhance personnel training and education efforts. The Railroad introduced the National Academy of Railroad Sciences' industry-standard training curriculum to upgrade our new hire train service and student engineers. We delivered more than 1,200 hours of locomotive simulator and new computer-based training. And, we rolled out coursework in leadership and management supervisory skills, and discipline and grievance training. We plan even more comprehensive employee education and training programs, still under course development.

Plans for a new centralized train operations center in Anchorage were completed, which will provide many employees with improved working conditions as well as add badly needed space for corporate training and crisis response activities. Site work began in 2003, with construction due next summer. Renovations were made in several employee shop breakroom and restroom areas. In Wasilla, employees were moved out of the substandard sheds used as workshops and into a professional shop workspace with greatly improved sanitation and interior comforts. The same was done in Whittier. The unsightly sheds were torn down and removed. Finally, an employee performance recognition program – the first of its kind – was implemented across the railroad for our workforce.

Capital Projects

2003 goal: *Continue to shape our future through the beneficial effects of world-class capital improvements*

Five-year objectives: *Invest an average of 20% of annual revenue in infrastructure maintenance*

Successfully complete our federally-funded capital construction program

Eliminate 25% of at-grade highway/railroad crossings in Alaska

Fund and apply technology to train dispatching, signals and switching

Redesign/build Anchorage and Fairbanks yard facilities to meet business, growth and community needs

2003 was a banner year for Alaska Railroad depots. May 17th marked an intermodal milestone, as Seward passenger dock and terminal improvements were completed just in time to accommodate the season's first cruise ship. Some of those passengers boarded the first cruise ship train to pull into the new Bill Sheffield Depot at the Ted Stevens Anchorage International Airport. At Denali Park, ARRC constructed new passenger shelters and restrooms, completing a two-year project to expand and upgrade the depot facilities and surroundings. Substantial passenger access enhancements for the Talkeetna depot were completed as well.

Ground broke on the Fairbanks Intermodal Project, preparing the site for highway access, a \$14.5 million passenger rail depot, and associated rail infrastructure to be constructed in 2004. The Ship Creek Intermodal Transportation Center project moved from the planning stage into design. In the Mat-Su Valley, ARRC joined the ADOT/PF, City of Wasilla, Mat-Su Borough, and Mat-Su Community Transit in a unified Wasilla Intermodal Planning effort that prioritized transit projects in the area. In Palmer, the Railroad provided project design and management for the Alaska State Fair's Park & Ride and Passenger Shuttle Facility, preparing the project for construction in 2004.

The Railroad marked a number of other major infrastructure accomplishments in 2003. On its way to becoming a rail industry pioneer, ARRC installed and implemented the initial phases of a state-of-the-art Collision Avoidance System. The South Anchorage Double Track Project was completed in the fall, creating the capacity needed to relieve congestion along this busy five-mile corridor. The Railroad also continued to make substantial progress on the effort to straighten the mainline track between Anchorage and Wasilla. In Whittier, ARRC completed a new downtown heavy equipment maintenance facility, invested in additional freight dock safety features, and spent \$500,000 to improve the DeLong Dock for use by local businesses and fishermen.

Community Cooperation

2003 goal: *Continue to participate in community planning and development organizations*

Community involvement continues to be a way of doing smart business for the Alaska Railroad. In 2003, the Railroad joined in a number of community events and planning activities to celebrate our shared history and to chart a course for future economic development.

The Railroad continued its active membership in numerous local and statewide civic groups and government transportation planning efforts, including the Fairbanks Rail Task Force, the Anchorage/Mat-Su Regional Transportation Planning Organization, the Whittier Planning Group, as well as both the Anchorage and Fairbanks Metropolitan Transportation Planning Organizations.

The year also saw ARRC contribute to the 50-year anniversary of North Pole and the Seward centennial celebration. The Railroad grew up with these communities and was honored to support and participate in their celebrations.

Looking Ahead

For all the success experienced in 2003, our “To Do” list is still daunting.

We are committed to accomplishing mainline capital improvements that are critical to positioning the Railroad to serve Alaskans and the State in the busy years ahead. Much remains to be done to prepare for the development we see coming our way.

The military and our congressional delegation have indicated they are seriously considering the benefits of extending the rail line to Delta Junction. This would provide land access to vast underutilized military training grounds, create better business opportunities for those pursuing resource development, and set the stage for potential commuter service for military and civilian personnel and families.

Recent announcements regarding gas pipeline construction plans included possible use of the Railroad’s tax-exempt bonding capabilities to help buy down the project cost. This comes with a growing recognition that the Railroad’s Capital Improvement Plan will need to be accelerated to meet the prodigious construction demands.

Lack of funding for a rail line on the proposed Knik Arm bridge means the Alaska Railroad must refocus its efforts to work with Wasilla and the Mat-Su Valley on a high-speed realignment around the city. Continued delay in selecting a route risks locking the track into downtown Wasilla without recourse for the traffic and slow speed problems, that would inevitably result.

The proposed Nenana Realignment would eliminate approximately two miles of track by getting rid of curves. This would shave eight minutes off the Railroad’s overall running time from Anchorage to Fairbanks and would enhance safety by eliminating six highway/rail at-grade crossings.

Further north, relocation of the mainline from Fort Wainwright to North Pole would eliminate 28 crossings, dramatically reducing the potential for accidents that threaten both train crews and travelers on the Richardson Highway. This is especially important because of the volume of hazardous cargo (fuel) aboard trains coming from the Williams Refinery.

The Railroad has completed approximately 30% of its overall line straightening and signalization work to improve safety and efficiency between Anchorage and Wasilla. Much remains to be done, and mainline upgrades remain our number one priority.

Add these and other projects together, and the "To Do" list comprising our current five-year plan, not including any line extension projects, will require tens of millions of dollars to complete.

In addition to pursuing a long list of capital improvements (outlined in a later section of this Special Report), the Railroad is looking forward to a busy operational side in 2004 and beyond.

Passenger reservations are a very bright spot, with growth expected to be 5-7% in 2004. The largest change in passenger service comes by way of Princess' and Carnival's move to Whittier from Seward. Already, the Railroad's new profitable service to Spencer Glacier and Grandview is booking double-digit growth over 2003.

On the freight side, we expect a small reduction in 2004 revenue compared to 2003, which was a record year. Petroleum, by far our largest individual piece of business, will likely be down somewhat in 2004 due to a decrease in the naphtha market, which may translate to as much as \$2 million in lower revenues. The new owner of Williams, Flint Hills, is said to be looking at refinery expansion investment in North Pole.

The Railroad's marine barge service, connecting the Alaska Railroad with the Lower 48, will grow slightly. Oil field related business remains the driver for our barge activity, which is predicted to grow incrementally. The other component of our barge business, container freight brought in through Whittier by both Lynden and Northland, is expected to benefit in 2004 and 2005 due to the busy project and construction markets. We have been successful in marketing our freight dock in Seward to several barge operators, and that has growth potential.

Gravel is not expected to meet the 2003 season records, but it will be a better-than-average year nonetheless.

In conclusion, we remain very optimistic about business opportunities in 2004, and will continue preparations for extending our capabilities to best serve Alaska and its communities.

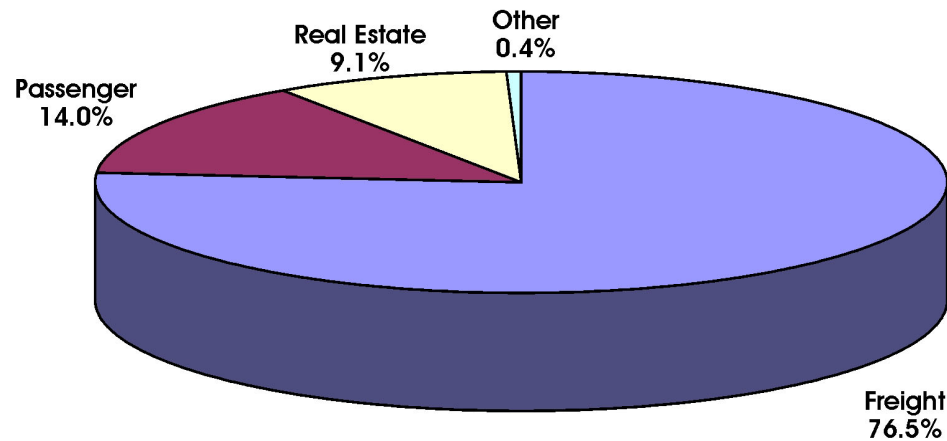


ARRC Five-Year Objectives

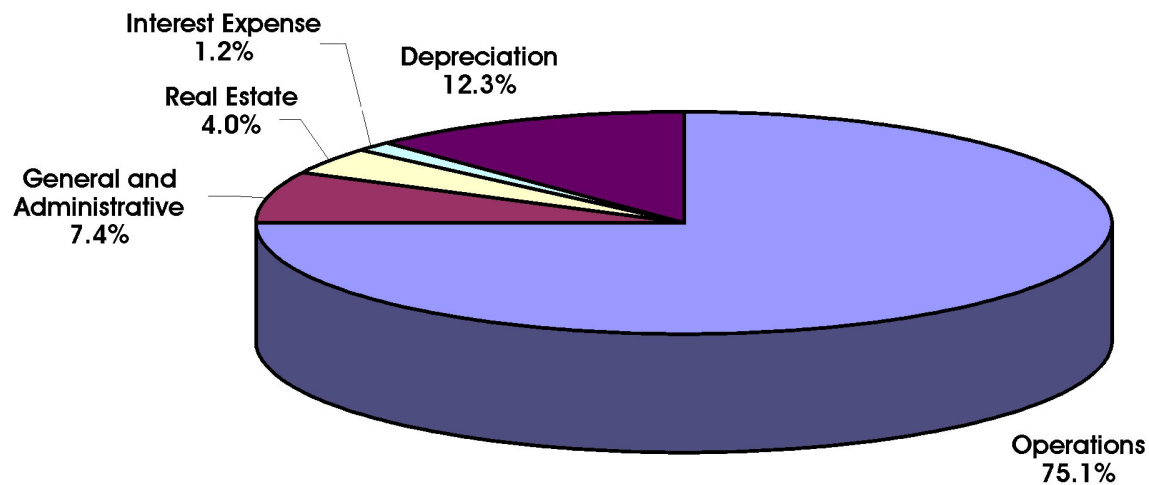
- Employee injuries reduced to no more than 2.0 injuries per 200,000 man hours
- Eliminate 25% of at-grade highway/railroad crossings in Alaska
- Grow overall revenue 2-4% per year
- Achieve and sustain an operating ratio of .95 by 2006
- Generate and sustain cash flow, measured as earnings before interest and depreciation, of \$25 million
- Achieve and sustain an annual real estate income of at least \$10 million/year
- Reduce average running time between Anchorage and Fairbanks to less than twelve hours
- Implement Centralized Train Control/Positive Train Control technology for train dispatching, signals and switching by 2005
- Complete implementation of the Maintenance Excellence Program
- Expand the formal railroad employee training program
- Refurbish and rebuild Anchorage/Fairbanks yard facilities to meet business, growth, and community requirements
- Clean up and beautify the Alaska Railroad
- Organizationally improve the links between authority, responsibility, and accountability
- Implement compensation, benefit, and hiring programs that allow ARRC to maintain a competitive edge in attracting and retaining excellent employees



2004 Budgeted Revenues and Expenses



Budgeted
Revenues
\$104.4
million



Budgeted
Expenses
\$94.9
million



5-Year Forecast – Revenue

<i>(in millions)</i>	2004 Budget	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Freight	\$ 79.85	\$ 80.92	\$ 80.14	\$ 81.23	\$ 82.33
Passenger	14.66	14.79	15.07	15.20	\$ 15.33
Real Estate	9.48	9.58	9.67	9.77	\$ 9.86
Other	0.44	0.65	0.70	0.75	\$ 0.80
Total	\$ 104.43	\$ 105.94	\$ 105.58	\$ 106.95	\$ 108.32



5-Year Forecast – Operating Budget

<i>(in millions)</i>	2004 Budget	2005 Plan	2006 Plan	2007 Plan	2008 Plan
Operating Revenues	\$ 94.75	\$ 95.97	\$ 95.46	\$ 96.67	\$ 97.91
Operating Expenses	(83.06)	(81.58)	(79.23)	(80.25)	\$ (81.27)
Net Income – Operations	11.69	14.39	16.23	16.42	\$ 16.64
Net Income – Real Estate	5.70	5.72	5.73	5.75	\$ 5.76
Other Income	0.20	0.40	0.45	0.50	\$ 0.55
Net Income (before depreciation and interest)	17.59	20.51	22.41	22.67	\$ 22.95
Depreciation	(11.66)	(12.16)	(12.66)	(13.16)	\$ (13.66)
Interest Expense	(1.20)	(1.47)	(1.36)	(1.23)	\$ (1.11)
Net Income (earned without Federal 5307 Funds)	4.73	6.88	8.39	8.28	\$ 8.18
Federal 5307 Funds	4.74	4.74	4.74	4.74	\$ 4.74
Net Income	\$ 9.47	\$ 11.62	\$ 13.15	\$ 13.02	\$ 12.92



5-Year Forecast – Capital Budget

<i>(in millions)</i>	2004 Budget	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	TOTAL
ARRC Internally Generated	\$ 36.5	\$ 16.2	\$ 21.6	\$ 22.1	\$ 22.8	\$ 119.2
Federal Railroad Administration	* 33.0	*33.0	25.0	25.0	25.0	\$ 141.0
Federal Transit Administration	** 12.6	8.5	8.5	8.5	8.5	\$ 46.6
Total	\$ 82.1	\$ 57.7	\$ 55.1	\$ 55.6	\$ 56.3	\$ 306.8
*Includes \$8.0 million in funding from the Department of Defense						
* *Includes \$0.150 million in funding from the U.S. Fish & Wildlife Service and \$.659 million from the Federal Emergency Management Agency						



5-Year Forecast – Capital Investment Program

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Internally Funded Capital Program								
Vehicle and Equipment Program								
1	Vehicle Program			1,000,000	1,000,000	1,000,000	1,000,000	4,000,000
	Anch B&B Carpenters F-250 replace V-1012		35,000					35,000
	Anch Gen Repair F-150 replace V-1010		35,000					35,000
	Anch Yard Suburban replace V-1085		40,000					40,000
	Fairbanks Signal Suburban replace V-1087		70,000					70,000
	Fairbanks Yard Suburban replace V-1102		40,000					40,000
	Fbks B&B F-250 replace V-1033		35,000					35,000
	Anch Car Shop F-150 replace V-1121		35,000					35,000
	HE Mech Shop F-650 replace V-240		120,000					120,000
	HE Op F-350 Plow Truck replace V-1026		40,000					40,000
	HE Op F-350 Plow Truck replace V-1027		40,000					40,000
	MOW Dist 1 Roadmaster F-350 replace V-1078		50,000					50,000
	MOW Dist 2 Tk Inspector F-350 replace V-1114		70,000					70,000
	MOW Dist 4 Tk Inspector F-350 replace V-1146		70,000					70,000
	Real Estate Suburban new		35,000					35,000
	Safety Suburban replace V-1101		50,000					50,000
	Security Expedition replace V-1098		40,000					40,000
	Security Expedition replace V-1099		40,000					40,000
	Seward Mechanical F-350 replace V-1066		40,000					40,000
	Special Agent Expedition replace V-1055		70,000					70,000
	TOFC Hostler Tractor replace V-214		80,000					80,000
	Whittier Trainmaster Suburban replace V-1143		40,000					40,000
	Subtotal Vehicle Program	-	1,075,000	1,000,000	1,000,000	1,000,000	1,000,000	5,075,000
Equipment Program								
454	Rail Grove Crane		550,000					550,000
41	Switch & Crossing Grinder					1,000,000		1,000,000
455	Spike Driver (2)		300,000			300,000		600,000
450	Anchor Applicator (2)		240,000					240,000
451	Anchor Remover		160,000					160,000
381	Equipment Capitalization			300,000	300,000	300,000	300,000	1,200,000
453	Locomotive Crane Repair & Maint		400,000	400,000	400,000	400,000	400,000	2,000,000
458	Vibratory Pile Driver		135,000					135,000

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Equipment Program - CONTINUED								
51	Hi Rail Boom Truck (Tundra type)				250,000			250,000
20	Ballast Regulator				350,000	350,000		700,000
380	Car Mover				250,000		250,000	500,000
45	D-6 Cat					300,000		300,000
310	Purchase Lowboy Trailer			80,000				80,000
46	Snowblower				350,000			350,000
47	Speed Swing				300,000			300,000
456	Spike Puller			150,000				150,000
37	Tampers				400,000		400,000	800,000
457	Tie Inserter			200,000		200,000	200,000	600,000
Equipment Program (Continued)								
460	Wheel Crane				400,000			400,000
	Subtotal Equipment Program	-	1,785,000	1,130,000	3,000,000	2,850,000	1,550,000	10,315,000
	Subtotal Vehicle & Equipment	-	2,860,000	2,130,000	4,000,000	3,850,000	2,550,000	15,390,000
Maintenance								
461	Rail/Ties/Ballast Supplement to FRA		2,150,000		1,016,000	609,500	1,925,000	5,700,500
462	Curry Quarry Development			100,000	1,100,000			1,200,000
12	Branch Line Rehabilitation (Eielson rail relay)			450,000	500,000	250,000	200,000	1,400,000
15	Rip Rap Program/Drainage		750,000	500,000	500,000	500,000	500,000	2,750,000
543	Track Realignment MP 78-79				297,238			297,238
22	Yard Track Improvements				250,000	950,000	250,000	1,450,000
503	Track Realignment MP 85					1,330,000	1,170,000	2,500,000
395	Seward Hwy Rail Realign MP 81	250,000						250,000
38	Purchase Ballast Cars					700,000	700,000	1,400,000
464	Denali Depot siding access material stockpile		50,000					50,000
465	Drainage Improvements/Culvert Program			220,000	250,000	250,000	250,000	970,000
10	Bridge Program		300,000	300,000	300,000	300,000	300,000	1,500,000
466	Whittier Barge Slip Maint Schedule			175,000	500,000	200,000	200,000	1,075,000
291	Walkways & Yard Footing Conditions			150,000	150,000	300,000	300,000	900,000
32	Yard Paving			150,000	150,000	300,000	300,000	900,000
17	Hydraulic Tools for MOW Sections/B&B			80,000	80,000	80,000	80,000	320,000
312	Avalanche Control - Howitzer Purchase	50,000						50,000
21	Mainline Switch Rehab			100,000	100,000	200,000	200,000	600,000
36	MOW Work Tracks			100,000	100,000	100,000	100,000	400,000
39	Crossings			75,000	75,000	75,000	75,000	300,000
43	HE Repair Shop Tools/EQ Continued Purchase			30,000	30,000	30,000	30,000	120,000
	Subtotal Maintenance	300,000	3,250,000	2,430,000	5,398,238	6,174,500	6,580,000	24,132,738

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Mechanical								
502	Locomotive Acquisition (\$5.8M cash, \$13.3 debt)		19,100,000					19,100,000
318	Locomotive Toilet conversion		67,000	145,000				212,000
467	5 SD70 MACs, 3 year maintenance		270,000		548,300	464,000	500,000	1,782,300
320	Locomotive Progressive Overhauls (4 units)		545,000	300,000	200,000			1,045,000
319	4 Locomotive Truck Overhauls		100,000	150,000	150,000	150,000	225,000	775,000
322	Steel Hopper Trucks rebuild			150,000	1	300,000		450,000
469	Refurbish 90, 12900 series for COFC		261,000		19,000	280,000		560,000
470	Hitch reposition, 19100 artic flats					105,000		105,000
471	Piranha Iron Worker (Fbks)					25,000		25,000
472	Single Car Air Brake Tester (2)					100,000		100,000
376	Wheel Shop boring mill, purchase/install					674,000		674,000
328	Locomotive GG Bearing conversion		65,932	118,000	118,000			301,932
327	12 MOW friction bearing cars to roller bearing					245,000		245,000
Mechanical (Continued)								
544	Railcar reflectivity program				75,000	75,000	75,000	225,000
480	Hitch rebuild program, 19100 series						210,000	210,000
377	Bearing Tapered Roller (BTR) Assembly Rebuild System for SD70 MACs.					420,000		420,000
481	Electronic Air Brake Test Equipment			31,200				31,200
482	Floor overlayment program, 15800 series			135,000				135,000
	Subtotal Mechanical	-	20,408,932	1,029,200	1,110,300	2,838,000	1,010,000	26,396,432
Transportation								
131	Head in Williams Loop	600,000	100,000					700,000
204	Anch 6,000' Yard Track/N Ship Creek Bluff (first 2,000 feet 2003)	500,000	437,000	1,563,000		2,363,363	2,000,000	6,863,363
133	Automatic Low Banner Switch			225,000	1	125,000	125,000	475,000
483	Palmer Branch Loop Extension (2200 feet)		200,000					200,000
155	Whittier Frt Yard cross-over (2) installation		200,000					200,000
486	Weather stations/video cameras - 6 locations			120,000	120,000	120,000	120,000	480,000
487	Electronic remote download system (time-slips, etc...)				300,000	300,000		600,000
371	Locomotive Simulator				350,000			350,000
	Subtotal Transportation	1,100,000	937,000	1,908,000	895,000	2,908,363	2,120,000	9,868,363
Markets, Sales & Services								
Passenger								
145	Baggage Bin Replacement				10,000			10,000
136	Wheelchair lift (replace one broken)		7,000		15,000		15,000	37,000
400	Whittier Passenger Access	200,000						200,000
Freight								
146	Container cars - new/used				600,000	600,000	600,000	1,800,000
148	Rebuild 5 - 19100 flats to 480v, 3 per year			135,000	141,000	57,000		333,000
147	Chain equipped flat cars - new/used 5				150,000	150,000	150,000	450,000
324	Rebuild 5 - 17000 series flat cars			65,000	65,000			130,000
149	Crowley Barge Slip - repair dolphin	135,000						135,000

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Markets, Sales & Services -= FREIGHT - CONTINUED								
491	Fbks Pipe Yard Track					170,000		170,000
492	Steel Hopper acquisition			600,000	800,000	1,000,000	1,000,000	3,400,000
493	General Service Flats - new/used				150,000	150,000		300,000
494	Motion scale - Anchorage				130,000			130,000
495	Static scales for Anch & Fbks certification				130,000			130,000
496	Swd Freight Dock crossover				400,000			400,000
497	Magnet controls for 2nd forklift				20,000			20,000
	Subtotal	335,000	7,000	800,000	2,611,000	2,127,000	1,765,000	7,645,000
Information Services								
Infrastructure								
163	CMMS Preventative Maintenance		772,000	100,000	50,000	50,000	50,000	1,022,000
157	Network Services		100,000	150,000	150,000	175,000	200,000	775,000
Infrastructure (Continued)								
158	Wide Area Network		90,000	100,000	95,000	70,000	70,000	425,000
171	OIS System HW Upgrade		130,000	-	-	-	-	130,000
160	Disaster Recovery for Computer Systems			50,000	100,000	100,000	75,000	325,000
159	Tape Library System			15,000	60,000	30,000	30,000	135,000
161	Network Printer Upgrade Program			11,508	3,508	17,508	17,508	50,032
Corporate Development								
499	Passenger Svcs Development		30,000					30,000
542	Real Estate Application Development		30,000					30,000
498	Corporate GIS		50,000	50,000	50,000	50,000	50,000	250,000
182	Electronic Document Management			150,000	135,000			285,000
	Financial Information System & Automated Timekeeping				2,900,000			2,900,000
354	Car Inspection - Handheld proj			30,000	30,000	10,000	10,000	80,000
500	Corporate Application Development			500,000	500,000	500,000	500,000	2,000,000
356	Onboard Gift Shop POS System			21,000				21,000
	Subtotal	-	1,202,000	1,177,508	4,073,508	1,002,508	1,002,508	8,458,032
Telecom/Signaling								
Signaling								
218	Replace Crossing Signal battery & install monitoring			50,000	50,000	50,000	50,000	200,000
178	Replace Hot Bearing Detector systems		54,500	115,215	115,215	69,129	69,129	423,188
173	Replace Dragging Equipment Detectors		93,000	92,517	-			185,517
179	Type "A" dragging equip detectors			34,000	34,000			68,000
214	Crossing signal electronic upgrades			20,000	20,000			40,000
Telecommunications								
501	Radio Office Controller		200,000		50,000	200,000		450,000
361	Field Communication site upgrades (Microwave backbone)			30,000	30,000	30,000	30,000	120,000
359	Storage battery replacements-Microwave sites			25,000	25,000	25,000	25,000	100,000
360	Small Tools and Test Equipment - Telecom			10,000	10,000	10,000	10,000	40,000
	Subtotal	-	347,500	376,732	334,215	384,129	184,129	1,626,705

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Real Estate and Facilities								
Infrastructure, Maintenance, Development (Income Related)								
366	Anch 1st Ave Parking Lot repairs (patch & stripe)		35,000					35,000
505	Anch Covered Bridge Tenant Improvements		75,000					75,000
506	Anch Depot Building Improvements	25,000		25,000	25,000	25,000	25,000	125,000
507	Anch Depot Water Service			100,000	1			100,000
508	Fbks Drainage - Ph 1		45,000	150,000	150,000	150,000	150,000	645,000
367	Odom Acquisition (\$795,250 cash, \$2,385,750 debt)		3,181,000					3,181,000
512	Ship Creek Area Development			75,000	1			75,000
513	Swd Frt Dock Access Improvements			50,000				50,000
346	Utilities/Land Improvement			100,000	1	200,000	200,000	700,000
514	Whittier / Develop Waterfront			100,000	1	25,000	25,000	150,000
510	Leasehold Improvements			150,000	150,000			300,000
New Facilities and Facilities Completion								
75	Swd Dock Terminal Paint, Lights, Restrooms		35,000					35,000
517	Swd Transit Bldg Roof Rehab			100,000	1	125,000	125,000	350,000
515	Healy Maintenance Center			500,000	1		500,000	1,000,000
55	Swd Bike path/signage			181,500	1		200,000	381,500
313	Multi-agency Avalanche Center						500,000	500,000
518	Whittier Delong Dock Rehab Support Building			75,000	1	35,000	75,000	185,000
Facilities - Quality of Workplace								
519	Anch Depot Lobby Restoration - Ph 1			25,000	1	25,000		50,000
521	Denali Depot Improvements			150,000	1			150,000
316	MOW Section Improvements (Healy/Nenana/Hurricane paint & flooring)			50,000	1	50,000	50,000	200,000
523	Portage Section Replacement & site prep			150,000	1			150,000
74	Shops, Paint Exterior			200,000	1	200,000	200,000	800,000
525	Talkeetna Depot Restroom Upgrade			25,000	1		150,000	175,000
18	Talkeetna Section Exterior Upgrades			10,000	1			10,000
522	Hurricane Section Replace Mobile Home			150,000	1		150,000	300,000
524	Shops, General Repair luncheon/locker improvements			116,000	1			116,000
520	Anch GOB renovate (Ops Ctr Relo)			100,000		50,000		150,000
6	Gold Creek Building (remote facility -office/kitchen/bunkroom 2-4 ppl)					100,000		100,000
73	Swd Baggage Storage			15,000				15,000
526	Shops, Mechanical Water Service		100,000	80,000	80,000	80,000	80,000	420,000
Facilities - Long Range Modernization and Cost Savings								
528	Fbks Power Plant Conversion (5 yr program)			300,000	1	300,000	300,000	1,300,000
529	Heat System Traps & HRUs Program		150,000	150,000	150,000	150,000	150,000	750,000
530	Swd Roundhouse Boiler Upgrade Design		15,000	200,000				215,000
345	Terminal Light Towers (100 ft) -2 Fbks, 2 Anch			200,000	1			200,000
527	Warehouse 3 Ph 2 - asbestos abate/demo			125,000	1	125,000	125,000	2,500,000

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Facilities - Life, Safety, Security								
188	Anch Freight House		15,000				1,265,363	1,280,363
533	Security Fencing and Gates			15,000	15,000	15,000	15,000	60,000
317	Shops, Anch & Fbks Diesel Shop Exhaust Extraction		350,000	350,000				700,000
313	Shops, Electric System Rehabilitation - Anch & Fbks		600,000	500,000	500,000	500,000	500,000	2,600,000
329	Swd Psgr Dock Catwalk Improvements		150,000					150,000
195	Anch Asbestos Abatement			75,000 ₁	75,000	75,000	75,000	300,000
531	Fbks Depot - Install Fire Alarm			60,000 ₁				60,000
532	Warehouse 1 - Fire Protection			200,000 ₁				200,000
19	Shops, Anch Gen Repair sprinklers			225,000 ₁	75,000	75,000	75,000	450,000
71	Fbks Power Plant Asbestos Abatement			100,000 ₁				100,000
Facilities - Deferred Maintenance								
82	Shops, Roofs - Anch Car Shop	425,000		250,000	250,000	250,000	250,000	1,425,000
344	Warehouse 1 Roof Upgrade			100,000 ₁				100,000
534	Anch Depot Bathroom Exhaust/Exterior Lighting		20,000					20,000
536	Anch Fbks Roof Drains, Windows, Etc.			115,000 ₁	40,000	40,000	40,000	235,000
537	Anch Storm Drain System Upgrade			150,000 ₁	100,000	50,000	50,000	350,000
Facilities - Deferred Maintenance (Continued)								
2	Shops, Anch Roof Drains, Car & General Repair (code violation)		75,000	125,000	125,000	175,000	175,000	675,000
540	Warehouse 1 Lighting			25,000 ₁				25,000
535	Anch Depot Roof Replacement			250,000 ₁				250,000
	Subtotal Real Estate and Facilities	450,000	4,846,000	6,192,500	2,970,000	2,610,000	7,400,363	24,468,863
Health, Safety, Environmental								
197	Safety Committee Funding		200,000	200,000	200,000	200,000	200,000	1,000,000
541	Compliance Issues		250,000					250,000
	Subtotal	-	450,000	200,000	200,000	200,000	200,000	1,250,000
	Total Internal Projects	2,185,000	34,308,432	16,243,940	21,592,261	22,094,500	22,812,000	119,236,133
Sources of Funding:								
	ARRC Internal Cash	2,185,000	18,622,682	16,243,940	21,592,261	22,094,500	22,812,000	103,550,383
	Long-term Debt		15,685,750					15,685,750
	Total Funding for Internal Projects	2,185,000	34,308,432	16,243,940	21,592,261	22,094,500	22,812,000	119,236,133

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Internal Project Requests by Department or Program								
	Vehicle & Equipment Program	-	2,860,000	2,130,000	4,000,000	3,850,000	2,550,000	15,390,000
	Maintenance	300,000	3,250,000	2,430,000	5,398,238	6,174,500	6,580,000	24,132,738
	Mechanical	-	20,408,932	1,029,200	1,110,300	2,838,000	1,010,000	26,396,432
	Transportation Services	1,100,000	937,000	1,908,000	895,000	2,908,363	2,120,000	9,868,363
	Markets, Sales & Services	335,000	7,000	800,000	2,611,000	2,127,000	1,765,000	7,645,000
	Information Services	-	1,202,000	1,177,508	4,073,508	1,002,508	1,002,508	8,458,032
	Telecom/Signaling	-	347,500	376,732	334,215	384,129	184,129	1,626,705
	Real Estate	450,000	4,846,000	6,192,500	2,970,000	2,610,000	7,400,363	24,468,863
	Health/Safety/Environment	-	450,000	200,000	200,000	200,000	200,000	1,250,000
	Subtotal Internal Projects	2,185,000	34,308,432	16,243,940	21,592,261	22,094,500	22,812,000	119,236,133

Footnote:

1) 2005 projects that will move to 2004 funding if funding becomes available.

Federally Funded Capital Program

Department of Defense (DOD)

R-01	DOD - Anchorage Base Line Change	8,000,000	8,000,000	16,000,000
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Federal Railroad Administration (FRA)

FRA Rehabilitation Program

Siding Extension

R-67	Colorado/Broad Pass Connection			7,500,000	7,500,000
R-56	Fairbanks Passenger Track		3,000,000		3,000,000
R-57	Fairbanks Loop Track	2,500,000			2,500,000
	Double Track Fairbanks Yard			5,000,000	5,000,000
	Hurricane wye with side and end ramp (from Chulitna)		750,000		750,000
	Denali wye			500,000	1,500,000
					2,000,000

R-76	Siding Upgrades/Relays				
	Colorado		1,000,000		1,000,000
	Broad Pass			1,000,000	1,000,000
	Wasilla		2,000,000		2,000,000
	Tunnel (extension and one switch)		150,000		150,000
	Brookman (extension and 1 new and 1 moved switch)			400,000	400,000
	Denali Siding			800,000	800,000

Siding Extension Upgrades

R-68	Portage, Girdwood, Brookman, Potter, Portage Yd#1	600,000			600,000
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2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
R-69	Heat at Sidings							
	Honolulu			300,000				300,000
	Colorado/Broad Pass Connection				300,000			300,000
	Broad Pass					300,000		300,000
	Susitna				300,000			300,000
	Chase				300,000			300,000
	Centralized Traffic Control (CTC)							
R-70	44th to MP 113 intermediate			400,000				400,000
R-71	Install CTC S Anchorage		2,500,000					2,500,000
R-72	Install CTC Portage to Whittier				2,000,000			2,000,000
R-73	Install CTC Broad Pass					1,800,000		1,800,000
	Power Switch - Sunshine						2,000,000	2,000,000
	Power Switch - Willow				2,000,000			2,000,000
R-52	Install CTC between Matanuska to Pittman			600,000				600,000
	Rehabilitation Program							
R-59	Anchorage Operations Center		5,800,000					5,800,000
R-74	Fairbanks Intermodal Construction		2,500,000					2,500,000
R-64	Track Rehabilitation (Note: \$11M requested)		8,850,000	11,000,000	11,000,000	11,000,000	11,000,000	52,850,000
R-32	Healy Canyon Stabilization		500,000	1,400,000	2,000,000	1,500,000	1,500,000	6,900,000
R-28	Bridge Program		1,100,000	1,500,000	1,500,000	1,500,000	1,500,000	7,100,000
R-75	Replace Bridge F5.7 (2004 PE)		250,000	2,500,000				2,750,000
	Replace Bridge 148.3				3,000,000			3,000,000
	Rehabilitation Program (Continued)							
	Replace Bridge 305.7					3,000,000		3,000,000
R-61	2005 Engineering/NEPA/SHPO		400,000	400,000	400,000	400,000		1,600,000
	Total FRA Funding	-	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	125,000,000
	Federal Transit Administration (FTA)							
	FTA 5309 Earmark Projects							
T-11	Ship Creek Intermodal		3,297,790					3,297,790
	Subtotal 5309 Earmark	-	3,297,790	-	-	-	-	3,297,790
	FTA 5309 Fixed Guideway Modernization Projects							
T-54	Ship Creek Trail		1,000,000	500,000		-	-	1,500,000
T-14	Rail Capacity Improvements (MP 110 - MP 114)		-	901,372				901,372
	Track Capacity Improvements				2,001,372	2,001,372	2,001,372	6,004,116
T-61	Hardware/Software		51,372					51,372
T-55	Nenana Rail Realignment		500,000	500,000				1,000,000
T-43	Equipment Rehab		-	600,000	500,000	500,000	500,000	2,100,000
	Reseat 551-554		600,000					600,000
	Dining Cars 321/322		350,000					350,000
	Subtotal 5309 Fixed Guideway Modernization	-	2,501,372	2,501,372	2,501,372	2,501,372	2,501,372	12,506,860

2004 Project ID	Description	2003 Carryover	2004	2005	2006	2007	2008	Total
Federal Transit Administration (FTA) - CONTINUED								
FTA 5307 Projects								
T-17	Transit Security (9.03% match w/min proj value of 1% 5307 funds)		48,257	48,257	48,257	48,257	48,257	241,285
T-62	Regional Transportation Planning (9.03% match)		50,000	50,000	50,000	50,000	50,000	250,000
T-56	Preventive Maintenance (20% required match)		5,920,395	5,920,395	5,920,395	5,920,395	5,920,395	29,601,975
	Subtotal 5307	-	6,018,652	6,018,652	6,018,652	6,018,652	6,018,652	30,093,260
	Total FTA Funding	-	11,817,814	8,520,024	8,520,024	8,520,024	8,520,024	45,897,910
US Fish and Wildlife Service								
F-1	Fish Passage Improvements (Ship Creek culvert replacement)		150,000					150,000
Federal Emergency Management Administration (FEMA)								
504	MP 19 to 23 Kenai Lake		200,000					200,000
505	MP 88.2 Indian Siding		34,000					34,000
506	Girdwood, Alaska near ARRC Bridge 74.5 over Glacier Creek		300,000					300,000
507	Moose Pass, Alaska along Upper Trail Lake		125,000					125,000
	Total FEMA Funding		659,000	-	-	-	-	659,000
Federal Funding Requests								
	DOD (Administered by FRA)	-	8,000,000	8,000,000	-	-	-	16,000,000
	FRA	-	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	125,000,000
	FTA Projects	-	11,817,814	8,520,024	8,520,024	8,520,024	8,520,024	45,897,910
	US Fish & Wildlife Service	-	150,000	-	-	-	-	150,000
	FEMA	-	659,000	-	-	-	-	659,000
	Total Federal Funding	-	45,626,814	41,520,024	33,520,024	33,520,024	33,520,024	187,706,910
Total Internal Projects								
		2,185,000	34,308,432	16,243,940	21,592,261	22,094,500	22,812,000	119,236,133
Total Federal Projects								
		-	45,626,814	41,520,024	33,520,024	33,520,024	33,520,024	187,706,910
Total Capital Program								
		2,185,000	79,935,246	57,763,964	55,112,285	55,614,524	56,332,024	306,943,043



Program of Capital Projects

The Alaska Railroad continues to pursue a comprehensive program of capital improvements. The Railroad is investing heavily in rail, ties, bridges and ballast to completely renovate its infrastructure. Safety and efficiency upgrades include projects to straighten the main track between Anchorage and Wasilla, build longer sidings (railroad “passing” lanes), and add automated and heated switches. The Railroad is also capitalizing on opportunities to better serve Alaskans through new depots, passenger services and equipment. Detailed descriptions of these projects are available on the Railroad’s website: www.alaskarailroad.com.

Funding for much of the capital projects program comes from more than \$390 million in federal grants received since 1996, including approximately \$46 million budgeted in 2004. Funds have come from the Federal Railroad Administration (FRA), Federal Transit Administration (FTA), Federal Highway Administration (FHWA) and Congressional earmarks through various agencies, such as the U.S. Forest Service, and U.S. Fish & Wildlife Service. FTA-funded projects require from 9 to 20% matching funds, which are drawn from Railroad net earnings. In addition to this match, ARRC will have invested another \$160 million of its own net earnings in numerous non-federally-funded projects between 1996 and 2004.

The following projects are either starting new in 2004, or they are continuing projects that are moving into a substantially new phase, i.e. planning to design, design to construction, etc.

T-44 Computerized Materials & Maintenance Management System

ARRC has acquired a fully integrated computerized materials and maintenance management system (CMMS) that will provide a flexible, cost-effective and automated tool to support and manage equipment, facilities maintenance, purchasing and inventory. CMMS will tie into existing accounting and project management software systems, and will provide information necessary to meet operational accounting and maintenance needs in several areas, including heavy equipment, mechanical, bridges and buildings, facilities, signals and crossings. Of the \$834,842 start-up budget, \$160,000 was funded by FTA and the rest by ARRC. Subsequent implementation costs totaling approximately \$2.4 million in 2003 and 2004 are funded by ARRC.



R-46 Collision Avoidance System

Work continues on a system that will provide a foundation for Positive Train Control in the future. The project includes installation of on-board computers in the ARRC locomotive fleet, and will use the global positioning system (GPS) to provide on-track location, to ensure train separation and automatic train stop capability in the event of a violation. The \$6.5 million project is the first of its kind to go operational in the United States. The project is funded by FRA and is expected to be substantially complete in December 2005.

S-1,2,3 Seward Security Enhancements

Security fencing will be installed to prevent unauthorized access into secured operational areas of the ARRC's passenger dock in Seward. Additional security measures include enhanced dock lighting, and installation of battery-powered emergency lighting and a camera system to monitor dock entry and access points. ARRC also plans to purchase a 27-foot, heated cab patrol boat to be given to the City of Seward for waterside surveillance and interception, not only for the Railroad's passenger dock terminal, but also for the entire Port of Seward. The budget is \$285,000 for dock lighting and fence, and \$152,000 for the vessel, funded by the Transit Security Administration.

T-40 Whittier Intermodal Planning

In 2004, the Railroad will complete a Whittier Intermodal Planning Study designed to improve passenger related amenities to facilitate growth in tourism. Goals of future development include: increased rail passenger and pedestrian safety, increased passenger service, segregation of freight and passenger operations, construction of a small passenger terminal, and construction of some new maintenance facilities. The budget is \$512,500 for study and conceptual design, funded 80% by the FTA and 20% by ARRC.

400 Whittier Cruise Ship Dock Train Access

ARRC is constructing a paved train access area, 1,000-foot siding, pedestrian crossing and removable passenger shelter across the street from the new Lynden-Princess cruise ship dock. The project will provide cruise ship passengers with safe walking access to trains. Completion is scheduled by May 15, 2004, to accommodate the first 2004 ship passengers. The budget is \$100,000, funded by ARRC.

R-67 Anchorage Noise Reduction Program

ARRC will install and test noise reduction systems at two different at-grade road-rail crossing locations in Anchorage. One crossing will have a stationary automated horn system installed. Using two horns mounted at the crossing instead of on the train, this system sounds a whistle aimed down the road directly toward highway traffic. Another crossing test will have median barriers installed. Crossing gates will be closed against the median, preventing any vehicles from getting around them, thus eliminating the need to sound a train horn for the crossing. The budget is \$221,000, funded by FRA.

T-11 Ship Creek Intermodal

Design is underway on a Ship Creek area transportation hub that provides bus and rail facilities, pedestrian improvements, new rail platforms, bus/van stops, retail development, airport accommodations and visitor information. In 2002, the Railroad pursued preliminary concept work, organized public and agency scoping meetings, and conduct pre-NEPA studies and documentation. The preliminary engineering and environmental documentation was completed in spring 2003, and FTA approved the environmental documentation in summer 2003. Engineering and design services will be procured in early 2004. ARRC has a current budget of \$15.3 million for preliminary design, environmental documentation, final design, and the initial phase of construction. Funding is 80% by FTA and 20% by ARRC. Additional funding will be needed for full construction, which is estimated at \$44 million.

R-59 Anchorage Yard Operations Center

Construction of a new Anchorage Operations Center building is scheduled for 2004. The center will be home for nearly 200 round-the-clock employees, and will replace the current facility, which is crowded, substandard and creates unacceptable working conditions. The design calls for a 20,000-square-foot, tri-level building with 70,000 square feet of parking area. It will house dispatch and crew operations, customer service areas, meeting rooms, and restroom/locker facilities. It will also allow for expansion of intermodal and breakbulk yards. The \$9.6 million budget is funded by the FRA.

Alaska State Fair Park-and-Ride and Passenger Shuttle Facility

ARRC is donating a service to administer federal funds and provide project management to build a park-and-ride and passenger shuttle facility on the west side of the Alaska State Fairgrounds in Palmer. The year-round facility will accommodate many passenger transit modes, from the train, buses and vans, to motorcycles, bicyclists and pedestrians. With final design and some excavation started in 2003, construction will be complete in 2004. The \$2.3 million budget is funded, \$990,00 by FTA, \$1.18 million by FHWA, and \$247,000 by the Alaska State Fair, Inc.

Wasilla Intermodal Project Planning

ARRC, ADOT/PF, City of Wasilla, Mat-Su Borough, and the Mat-Su Community Transit (MASCOT) formed a regional planning organization to analyze various transit plans and associated federal funding sources. In 2003, Alternative Assessments (AA) were initiated for three potential projects: Wasilla Rail Realignment, Knik-Goose Bay Road Grade Separation, and a Wasilla Intermodal Facility. Draft AA documents are anticipated in early 2004, with public meetings to follow. The AA budget is \$302,000, funded by FTA and members of the Wasilla Intermodal Steering Committee.

T-12 South Wasilla Track Realignment

ARRC plans to straighten curves along the mainline track in South Wasilla, between ARRC Mileposts 154-158. This is part of the larger effort to improve safety and reduce track curvature in a high density corridor between Girdwood and Wasilla. An Environmental Assessment (EA) and land acquisition efforts were initiated in 2003. EA completion is expected in early 2004, with public meetings to follow in the spring. ARRC has funding of \$2.5 million from an FY 2002 earmark to continue design and land acquisition.

F-1 Fish Passage Improvement Program

In 2004, ARRC will replace two culverts with new, wider culverts to enhance fish passage in tributaries to the Indian River. The culverts are located at ARRC Milepost 267.3 and Milepost 268.8, about 40 miles north of Talkeetna. ARRC is also looking at other culvert locations to determine ways to improve fish passage – from culvert replacement to fish ladder repair. The budget for the two culverts is \$150,000, funded by the U.S. Fish & Wildlife Service.

R-57 Fairbanks Depot and Loop Track

Construction on a new depot building will begin in 2004, as part of the Fairbanks Intermodal Project. The project includes a new passenger main loop track and platform, an on-site maintenance pit, a new depot building, and new road access from the Johansen Expressway. Excavation and fill work, including a temporary Johansen Expressway intersection, was completed in 2002. Site work continued during 2003. Facility and track construction will get underway in 2004, with completion expected by 2005. Total project cost is estimated at \$22.5 million, with funding by the FTA, FRA and ARRC.



Issues: Railroad Positions on Hot Topics

Federal Capital Grant Assistance

- **Background:** When the State of Alaska purchased the Alaska Railroad in 1985, it received a railroad in disrepair. The Railroad was substantially rehabilitated in the 1950's, but received very little capital funding under federal ownership beyond that. Since the mid 1990's, Alaska's congressional delegation has worked particularly hard to ensure that the ARRC is on equal federal financial footing with other Lower 48 passenger rail operators. As a result of their efforts, TEA-21 included the ARRC its annual appropriations and the dollars have been invested in rehabilitation and upgrade of passenger support infrastructure. Likewise, other congressional appropriations have been spent catching up to meet modern standards of rail safety and reliability.
- **Position:** ARRC is authorized continued capital grant assistance from the federal government to rehabilitate infrastructure and to improve passenger services. TEA-21 will be reauthorized in 2004. ARRC will work with Alaska's congressional delegation to maintain grant recipient status in the next bill.

Taxing the Railroad

- **Position:** Federal law very specifically exempts the Alaska Railroad from paying state and federal taxes or from using any railroad revenues for other than railroad purposes. Structured as a quasi-private entity, the Railroad pays its own operating expenses, then pays for capital costs out of its net earnings, which become the matching dollars used to leverage various federal capital grants. The Railroad does not receive State funding. Railroad employees are not State employees, and Railroad wages, retirement, insurance and benefits are all liabilities covered solely by the company, not the State. Tax-exempt status is a crucial financial component, which was specifically engineered into the Alaska Railroad model. It was established in order to structurally enhance corporate financial viability, thereby supporting the Railroad's mission – state economic development – while reducing the risk of needing State funds to do it.

Railroad Tax-Exempt Bonding Authority

- **Position:** ARRC supports the use of its tax-exempt bonding authority to build projects that benefit the economic development of the State of Alaska – such as a gas pipeline project. This type of project falls right in line with the Railroad's mission. As an issuer, collecting fees associated with the costs of administering such bonds over their lifetime is appropriate. Proceeds collected annually as administrative fees should be invested back into railroad infrastructure to ensure the Railroad can continue to offer robust capacity and support for future development of Alaska resources.

Rail Extensions

- **Position:** ARRC will take its lead from state and federal policy leaders regarding rail extension initiatives. ARRC supports extending or building new railroad lines and believes this falls under its mission to foster state and community economic development. ARRC cannot by itself generate the capital funding necessary to proceed with some of the proposed larger rail extension projects (\$3-\$8 million/mile), but stands ready to provide technical, engineering and operational expertise should funding be identified. Or ARRC could be part of a partnership. Once constructed, the ARRC must be allowed to generate sufficient revenues to pay the annual operating expenses, broadly estimated at over \$30,000/mile of track.

Rail Extension to Delta Junction: We believe it is desirable to extend the Railroad to Delta Junction to enhance national defense support. This extension conveniently aligns with proposed legislation to extend the rail to Canada, and could also permit rail commuter service for missile field workers between Fairbanks and Fort Greely. The extension would offer the possibility of rail freight service to and from Delta as well as rail access to Stryker Brigade training ranges located west of Harding Lake in the Blair Lakes Training Area, and the Donnelly Training Area near Fort Greely.

Canadian Rail Extension: To reach the Alaska/Canadian border, approximately 270 miles of track need to be constructed. ARRC has been supportive of recent legislative and congressional efforts to study such an initiative and will continue to lend its planning expertise to the process.

Foothills Route: This 50-mile extension from Blair Lakes Training Area west to the Rex/Brown Area ten miles south of Clear Air Force Base provides a future alternate route into Fairbanks. This improved routing would allow higher speed track, improved roadbed conditions and a way to avoid moving fuel and other freight materials through Fort Wainwright and the City of Fairbanks.

Dunbar to Livengood: (Long-term) This potential 50-mile extension would open up a world-class limestone deposit north of Fairbanks for production of Portland cement. The extension could bring private investment, Native interests and the State together in a project with paybacks to all.

Northwest Arctic Rail: (Long-term) This concept opens up previously inaccessible mineral and energy resources to developers. Should such an initiative warrant a closer look, ARRC would be pleased to be a member of the assessment and planning team.

In each case, ARRC is a proponent of using transportation “corridors” that retain within them exclusive rail right-of-way control for safe track usage, as well as appropriate space consideration for energy, communications, and highway use.

Rail Realignments

- **Position:** ARRC supports realigning its main track around Alaska communities that have developed closely along the rail line. The issue is one of enhancing both safety as well as efficiency. Fairbanks, Wasilla and Nenana realignments would eliminate numerous dangerous at-grade crossings and significantly reduce the running time of our trains. Both the Fairbanks and Wasilla realignments are significant undertakings, and the Railroad does not yet have sufficient internal or federal funding to proceed with these projects on its own. We will continue working to integrate with community planning efforts and the ADOT/PF, and be ready with plans when additional federal funding becomes available.

Fort Wainwright to North Pole Realignment: Eliminates 28 crossings

South Wasilla Realignment: Eliminates five crossings (a future route around the city center would eliminate seven additional crossings)

Nenana Realignment: Reduces potential for crossing accidents at six crossings when the main line through town becomes a spur

Regional Transportation Planning

- **Position:** ARRC fully supports and sometimes helps to fund local regional transportation planning. ARRC serves on a number of planning groups including AMATS, FMATS, the Regional Transportation Planning Organization (Mat-Su and Municipality of Anchorage), Anchorage's TransVision, and the Fairbanks-North Star Borough 2100 Rail Task Force. The Railroad believes that local officials need to insist on seeing a broader perspective when it comes to state transportation planning – one that extends beyond just their immediate geography. ARRC believes individual projects sell better when they are discussed in the context of a broader regional system plan. Accordingly, we advocate transportation analysis focused on transportation nodes and linkages, and the intermodal transition points between them. ARRC methodology would rely on a more rigorous analytical examination that tests variables for their systemic effects, and looks for the unintended systemic consequences of individual state transportation project options.

Public Involvement Policies

- **Position:** The Alaska Railroad is committed to coordinating our planning, projects, and real estate activities with railbelt communities to better incorporate community-planning efforts and needs. We emphasize a proactive public involvement process in order to allow communities to actively contribute to ARRC decisions. This process often includes donated funding support, as well as our in-depth participation in community planning efforts. It also includes “heads up” direct mail correspondence, open house events, up-to-date information on our web site, a dedicated public involvement e-mail address, public comment hotlines, and community meeting presentations.

Partnering with Communities

Position: ARRC is seriously committed to partnering. Collaborative support for important community, borough, and private sector initiatives can enhance mutual efforts all along the railbelt, creating conditions for success that can enable a more prosperous Alaska. Examples of partnering include the Whittier Planning Task Force, Fairbanks North Star Borough 2100 Rail Task Force, and Wasilla Intermodal Steering Committee. In addition, the Railroad and its employees support railbelt communities through charitable giving, school business partnership programs, and participation in many civic organizations. As permitted by law, the Railroad often leases land to communities at less than fair market value for trails, parks and other public amenities.

Planning & Zoning Jurisdiction over the Railroad

- **Background:** Several federal laws contain language that essentially preempts or eliminates state and local planning and zoning regulatory authority over railroads except in all but very limited circumstances. For years, local governments and states have attempted to restrict railroad hours of transportation, speeds, loading requirements, routes, etc., and the federal government has been vigorous in thwarting such efforts. In addition to federal legal protection, ARRC is an instrumentality of the State of Alaska and shares the State's sovereign immunity. The Railroad's enabling act also exempts ARRC from other statutes wherein the State has waived its sovereign immunity from local planning and zoning. As a result, ARRC retains immunity from local planning and zoning ordinances because it remains in the state's best interest.
- **Position:** Authors of the enabling act wisely exempted ARRC from local planning and zoning regulations. ARRC travels through 13 recognized municipal and borough governments between Seward and North Pole. If both the federal and state exemptions were removed, local communities could dictate inconsistent and onerous planning and zoning restrictions which would collectively impact the Railroad's interstate commerce designation and its ability to offer efficient, economical and reliable service to freight and passenger customers. Exemptions notwithstanding, Railroad policy is to make every effort to work with communities to address issues of planning and zoning, consistent with its mission and State status.

Knik Arm Crossing

- **Position:** Rail is not currently planned for the Knik Arm Bridge, it will continue through Wasilla for the foreseeable future. Therefore, the efforts to straighten the track from Anchorage to Wasilla, and the project to realign track around Wasilla, take on a new sense of planning urgency. If commuter service is to be viable, track speeds must increase overall. Once trains reach Wasilla, having an alternative to running every train through the city center makes eminent sense for both the safety of the community and to enhance Railroad operations and safety. The success of projects throughout the Wasilla-Anchorage corridor will have a major impact on the Alaska Railroad's overall effectiveness, and the quality of life in the expanding Parks Highway corridor through Wasilla.

Privatization

- **Position:** In our opinion, Alaska Railroad privatization would incur prohibitive buyer financial risk. A private owner would have to pay taxes, would not receive such generous federal grant money, would not be indemnified, and would undoubtedly not receive title to the entire 36,000 acres of State land that ARRC currently owns for exclusive right-of-way and lease revenue. Those key elements, working in conjunction with one another, are the essential factors contributing to ARRC's ability to function profitably year after year without having to go to the State for funding subsidies. In our opinion, a private owner could not continue the present level of service to all our state customers and be profitable at the same time, just based on operational revenues. Historical data bears this out. Failure of privatization would eventually compel the State to take back a dysfunctional remnant of the former corporation, only to move to rebuild it all over again at great cost.

Executive Budget Act

- **Position:** The ARRC's existing business model works very well. Language in the congressional transfer legislation was written by legislators who understood the need for the Railroad to operate independently. They understood the need for business, safety and environmental decisions to be made based on the facts and merits of both long-term business and market demands, not unduly biased or encumbered by short-term political considerations. Under Federal ownership, Railroad operations were dependent on decisions made in Washington D.C., which history shows contributed mightily to its financial failure during that period. Any similar dependence on the State's general fund would bring with it a corresponding desire by legislators for increased State regulation and oversight of day-to-day operations. The closest comparative model is the Alaska Marine Highway ferry system. Experience shows that State operational oversight would introduce the slow pace of politics into the high tempo day-to-day decision-making of a very complex and dynamic transportation business. ARRC customers depend on the ARRC's ability to respond quickly to market demands. Our management team / Board of Directors relationship is currently well suited to the task. The economic model has worked very well for nearly 20 years. As a result, the Alaska Railroad has never requested State dollars.

Commuter Rail Service

- **Position:** The ARRC supports developing Alaska's intermodal and commuter rail services as a way of adding transportation options for the traveling public. We are providing assistance to local communities by participating as technical advisors in a number of transportation planning organizations as policy makers and residents consider the establishment of commuter rail. The Railroad recognizes that effective commuter rail service requires a change in land use policy, and a long-term commitment. ARRC support is clearly evidenced by our pursuit of such key elements as the Bill Sheffield Anchorage Airport Rail Depot, an extremely important link, and Ship Creek development that includes mixed use and intermodal planning. The Railroad will continue to plan and build infrastructure that enables transition to such services when Alaskans call upon us to do so.

Trails

Position: Over the last few years, ARRC has taken an active part in planning meetings and discussions with Railbelt residents, officials and agency representatives with regard to trail proposals that suggest use of ARRC's right-of-way. The Railroad understands its own responsibility to be a good steward of ARRC lands. This includes working with communities to create a better place for Alaskans to live, work, and play. With that in mind, ARRC has developed a standard design, which allows use of our right-of-way for trails. The policy calls for trails to be placed in the outer 30-foot edge of our right-of-way, providing a 70-foot safety buffer zone. In fact, our Railroad Board of Directors has a responsibility to the public and our employees not to create a safety hazard through the use of Railroad lands. Sec. 42.40.420 of the Railroad Corporation Act states in pertinent part: "The corporation shall authorize a walkway or a trail if the board first finds in writing that the proposed walkway or trail will not create a safety hazard and will not unreasonably interfere with continued or expanded operations in the utility corridor." ARRC's assessment of trail projects includes potential community and economic value, as well as the limitations posed by public and personnel safety, operational needs, regulatory requirements, and potential liability.